

Where Is the Real Republican Budget?

Both the House Republican budget resolution and the President's budget are "pretend" budgets. Neither one presents a credible plan to manage the government's finances over the next decade or to prepare for the beginning of the retirement of the Baby Boom generation six years from now. This is because these putative budgets omit and understate the costs of things that Republicans themselves intend to do and of things that inevitably must be done. The House Republican budget even refuses to show any costs beyond the next five years.

Some of the *real* Republican budget can be pieced together from the grossly incomplete elements of the two putative budgets. However, much of the real Republican budget must be inferred from Republicans' public statements — and from those uncomfortable topics that Republicans scrupulously avoid in their public statements. Once that is done, it becomes clear that the real Republican budget squanders the Social Security and Medicare Trust Fund surpluses for as far as the eye can see. The House Republican budget resolution is not the real Republican budget. Rather, it is a sham budget intended to cloak the fact that they plan to use the Social Security and Medicare Trust Fund surpluses for things unrelated to Social Security and Medicare especially tax cuts.

The real Republican budget has profound budgetary effects over ten years, as estimated by the nonpartisan Congressional Budget Office (CBO). The real Republican budget credits public declarations by the President and the Republican leadership that they wish to make last year's tax cut permanent and recognizes the budget effects of doing so. The real Republican budget accepts that Republicans will vote to extend popular expiring tax provisions and will not subject middle-class families with children to the alternative minimum tax (AMT). The real Republican budget acknowledges that a credible Medicare prescription drug benefit will be expensive and that providing basic government services cannot be done on the cheap. The real Republican budget creates huge permanent deficits, undermines Social Security and Medicare, and heaps up public debt for years to come.

Hiding the Second Five Years

House Republicans chose to present only five years of budget numbers in their resolution. This cloaks the fact that it spends all of the Medicare surplus and about two-thirds of the Social Security surplus over ten years, and probably well past. This encroachment on the trust fund surpluses already was evident from the President's budget, for which 10-year numbers are available. The Administration's own numbers show a non-Social Security deficit of \$1.464 trillion for 2003 through 2012, equal to 59 percent of the Social Security surplus. CBO's somewhat less optimistic re-estimate of the President's budget puts the President's invasion at over 70 percent of the Social Security surplus, or \$1.801 trillion. If extended for 10 years, the House Republican budget would look about the same.

Since the 1997 Balanced Budget Act, it has been customary to employ 10-year projections. The use of 10-year projections by both Democrats and Republicans was largely a recognition that the fiscal challenges posed by the impending retirement of the Baby Boom required a longer planning horizon. Of course, last year when Republicans were pushing a 10-year tax cut, 10-year projections were attractive to them. Now that last year's big tax cut has passed and the long-term surplus has disappeared, Republicans find 10-year estimates inconvenient.

The Republicans' plan to invade the Social Security and Medicare Trust Fund surpluses for years on end was evident in the Budget Committee's markup. Republicans rejected a rather measured Democratic amendment to require a future review if the budget continued to invade the Social Security surplus. Of course, House Republicans made strenuous promises last year and repeatedly brought up hortatory lockbox bills to demonstrate their supposed fealty to Social Security. This year, though, all but one of the Budget Committee Republicans voted against the Democrats' limited amendment.

"Every dollar of Social Security and Medicare tax revenue will be reserved for Social Security and Medicare."

*President George W. Bush
February 24, 2001
Radio Address to the Nation*

"We are going to wall off Social Security trust funds and Medicare trust funds...And consequently, we pay down the public debt when we do that. So we are going to continue to do that. That's in the parameters of our budget and we are not going to dip into that at all."

*House Speaker Dennis Hastert
March 2, 2001
BNA Daily Tax Reporter*

"We must understand that it is inviolate to intrude against either Social Security or Medicare and if that means forgoing or, as it were, paying for tax cuts, then we'll do that."

*House Majority Leader Richard Armey
July 11, 2001
BNA Daily Tax Reporter*

Using Nonpartisan CBO Estimates: That Was Then; This Is Now

After twice shutting down the federal government seven years ago largely over the issue of using CBO estimates, House Republicans have now decided CBO's figures are also inconvenient. If Republicans had started from the CBO baseline rather than the OMB baseline that they chose, that factor alone would worsen the non-Social Security deficit in their resolution by \$318 billion over ten years. Adhering to less optimistic CBO scoring of their policy proposals would cause their

bottom line to deteriorate even further, although one cannot say by precisely how much. (See *Creative Accounting* for a more complete analysis.)

This sudden switch to OMB numbers is ironic in light of Republicans' arguments during the government shutdowns. Then, they claimed that only CBO could be trusted to be "honest," whereas OMB was politically tainted, being part of the Executive Office of the President. After the fact, both the CBO and OMB estimates may prove to be off the mark. But CBO is Congress's own nonpartisan authority and has a role, established in the Budget Act, of providing unbiased analyses.

Let's Pretend: Taxes

Republican budget resolutions traditionally have pretended that Republicans will make implausibly sharp, though largely unspecified, cuts in spending. This year, the resolution also pretends that Republicans have essentially given up on further tax cuts as well. The House Republicans' budget resolution would have us believe that Republicans really want only \$27.9 billion in additional, unspecified tax cuts over the next five years.

Ostensibly, House Republicans have rejected the idea of making permanent last year's tax cut, which otherwise will sunset in 2010. CBO has estimated that that would cost \$569 billion over ten years, plus added interest expense on the national debt.

Certainly, the Administration does not believe that Congressional Republicans have abandoned the President's call in the State of the Union Address to make the tax cut permanent. The day after the Budget Committee passed the Republican resolution on a party-line vote, White House spokesman Ari Fleischer said,

"The language that will be in law when the President signs [the Continuing Resolution] is the 104th Congress is to achieve a balanced budget not later than fiscal year 2002 as estimated by the Congressional Budget Office. Very real. Very meaningful."

Representative Tom DeLay
November 20, 1995
Congressional Record H13371

"[CBO] is not a partisan office. It is not even a bipartisan office. It is a nonpartisan office. We on our side have had tremendous disagreements with those numbers, but why would we want those numbers to be used instead of the Office of Management and Budget? The Office of Management and Budget's are partisan numbers done by the President's political appointee....We just want it to be real."

Representative Chris Shays
November 18, 1995
Congressional Record H15077

"Let us be very clear, the language tonight says nothing about taxes. It says nothing about defense. It says nothing about education or environment. All it says, all it says is the President of the United States, in return for us giving him billions of dollars to spend, should commit to a 7-year balanced budget, scored honestly, by the Congressional Budget Office."

Former Speaker Newt Gingrich
November 15, 1995
Congressional Record H12502

[Making last year's tax cut permanent] is something the President has called for. The President hopes they will get it done, and I think it's clear that it's the will of the Republicans to get that done, perhaps a few Democrats, and that's something the President will continue to push for.

The Administration's confidence that day that House Republicans have not lost their enthusiasm for large and growing tax cuts is well placed. Only three hours earlier, House Speaker Dennis Hastert responded to a reporter in a manner that would indicate that he feels the same way:

Well, you know I think there are some things that we want to do, and think one of the first things we will come up with is a taxpayer's Bill of Rights very soon and then we are going to look at extenders — not extenders — but to make part of this tax cut or all of it that we passed permanent over the next 10 years. Of course, that cost comes way out at the end years.

Making permanent last year's tax cut, though, is just the beginning of the tax agenda that Republicans omitted from their budget resolution. Table 3-12 in CBO's January budget outlook details over 30 other expiring tax provisions that Congress may well renew. Certainly, these popular expiring tax provisions typically have been renewed in the past, and typically most Republicans have voted for renewal. If Republicans still favor these measures, they would drain additional billions from the budget — billions that the Republican budget resolution does not acknowledge.

Finally, there is one major unresolved problem in the tax code that it will prove intolerable not to fix: the increasing burden of the individual alternative minimum tax (AMT) on middle-class families. The Republican budget resolution is silent about this problem, even though Republicans are well aware of its seriousness.

On page 77 of the *Analytical Perspectives* volume accompanying the President's budget, the Administration states, "By 2012 the number of AMT taxpayers will be 39 million (assuming [last year's tax cut] is extended), which is 34 percent of all taxpayers with individual income tax liability." Currently, the AMT — which is intended to prevent very affluent households from avoiding taxes through shelters, credits, and deductions — affects fewer than 2 million tax filers. But, if nothing is done, more than half of all families with children, including many with moderate incomes using no tax shelters, will be subject to the AMT.

Clearly, the burgeoning AMT problem will eventually have to be fixed. Fixing it, however, will be quite expensive. There are no official estimates for comprehensive AMT reform, but JCT estimated that merely offsetting the interactions with last year's tax cut, which added to existing AMT problems, would reduce revenues by \$127 billion. This would still leave about 20 million taxpayers subject to the AMT. The cost, including debt service costs, of a comprehensive reform of the AMT could easily reduce the ten-year surplus by \$450 billion or more.

Let's Pretend: Spending

Just as the House Republican budget resolution pretends that its sponsors do not really favor substantial additional tax cuts, it also pretends that Republicans will not vote to increase spending beyond the numbers in the resolution. As mentioned above, this is an old trick in Republican budget resolutions: voting in the spring for a fake budget with supposedly severe spending strictures, and then voting in the fall for hefty spending increases to take home to their constituents.

The most egregious example of this in the House Republicans' resolution this year is their putative Medicare prescription drug proposal. The resolution establishes a reserve fund that supposedly serves three purposes: (1) a prescription drug benefit, (2) relief for Medicare providers from the constraints imposed by the 1997 Balanced Budget Agreement, and (3) unspecified Medicare "modernization." The reserve fund is pegged at \$350 billion over ten years — something of an oddity in a five-year budget resolution.

Last year, CBO already had informed the Congress that the proposals put forward at that time just to provide a prescription drug benefit alone could cost more than \$350 billion over ten years. Yet, the Republican budget claims that this amount can somehow fund a drug benefit and provide relief for Medicare providers, an item that MedPAC estimates could cost as much as \$174 billion over ten years. Clearly, the unspecified Medicare "modernization" is intended to give the impression that Republicans are going to find spectacular new efficiencies in the provision of health care to the elderly that will save hundreds of billions of dollars. (See *Function 570: Medicare* for a more complete analysis.)

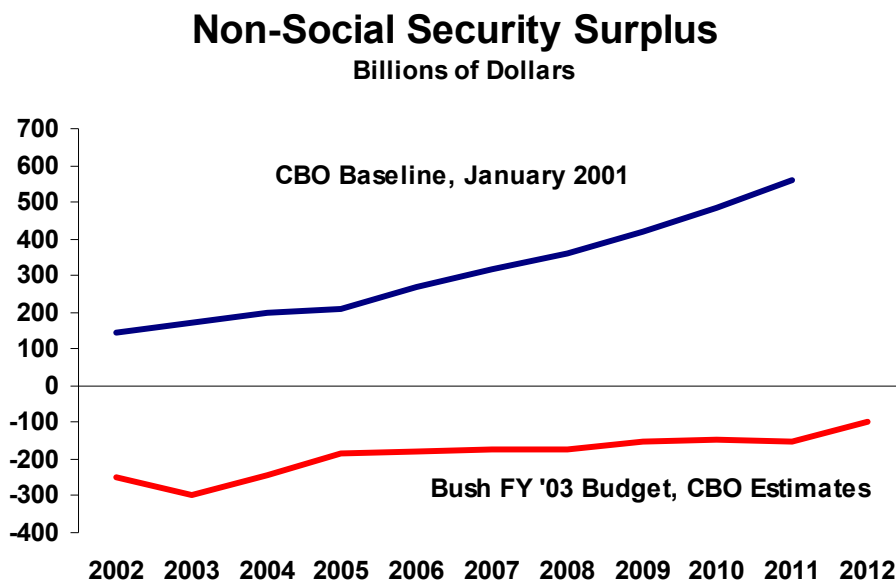
The resolution plays similar games with implausibly low funding numbers for domestic, non-security programs. The Republican budget claims that over ten years such spending will be held \$17.8 billion below the level needed to keep up with inflation. By 2012, this would amount to a 5.8 percent cut below the level needed to maintain constant purchasing power for priority programs such as education, the environment, scientific research, housing, economic development, and transportation. Merely maintaining such programs at the level needed to keep pace with inflation — let alone providing for the needs of a growing population and a growing economy — would reduce the surplus by about \$221 billion once debt service costs were included.

Finally, just as the resolution ignores inevitable tax reductions that will occur in the future, it also ignores inevitable spending increases that will soon occur. The most obvious omission is the cost of the defense and security supplemental spending bill that the Administration will soon send to the Congress. Although the funds in this bill will be appropriated for 2002, much of the spending will occur in 2003 and 2004, affecting the deficits for those years. The Republicans' alleged budget makes no provision for this — nor for the substantial increase in foreign development aid that the President just announced in advance of his United Nations appearance.

In a similar vein, this year's House Republican budget has dispensed with a very prudent reserve for natural disasters that was included in last year's Republican resolution. Though we cannot know exactly when earthquakes, hurricanes, tornadoes, floods, and wildfires will occur, we can be certain that they have not ceased altogether. Last year's resolution set aside funding approximately equal to the average cost of these calamities, but this year's budget does not.

Let's Pretend: The Debt Limit

To cloak the fact that their real budget undermines Social Security and Medicare, Republicans claim that the stunning fiscal reversal of the last year was beyond their control. Last year, incoming President Bush was presented with the most abundant fiscal legacy in our nation's history. After eight straight years of declining deficits and then growing surpluses, CBO projected non-Social Security surpluses last January for the next decade and beyond. The outlook was so favorable that the President and Congressional Republicans said categorically that the greatest fiscal danger facing the United States was that the public debt would be paid off too quickly.



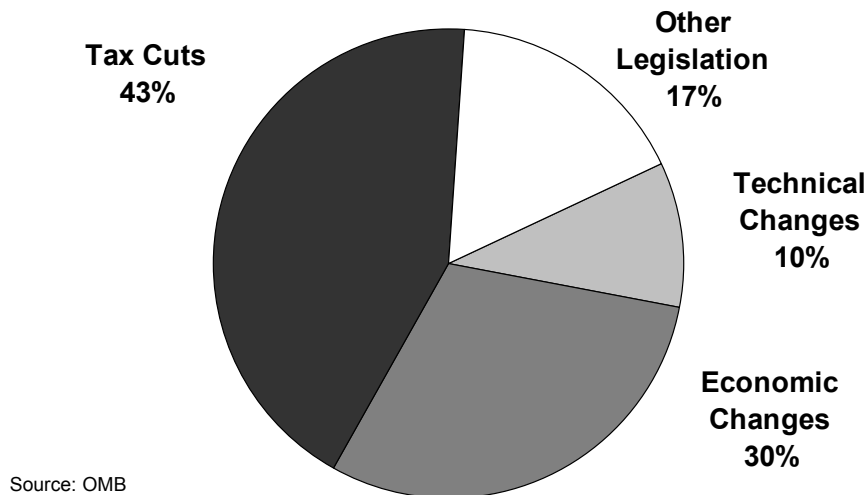
Their budget agenda deserves credit for at least one success: the “problem” of too much debt reduction has been solved. Now, the Administration’s own numbers show Republican policies resulting in rising debt and on-budget deficits for as far as the eye can see. The President and Congressional Republicans, however, claim that their policies did not cause this sudden fiscal reversal, instead blaming the exigencies of war and a weak economy. For instance, on page 32 of the President’s Budget this year, he claims,

The economic shock combined with unexpected new expenditures for defense, homeland security, and domestic reconstruction pushed the federal government back into deficit. However, if we make the right choices by stimulating growth and controlling spending, deficits will be small and temporary.

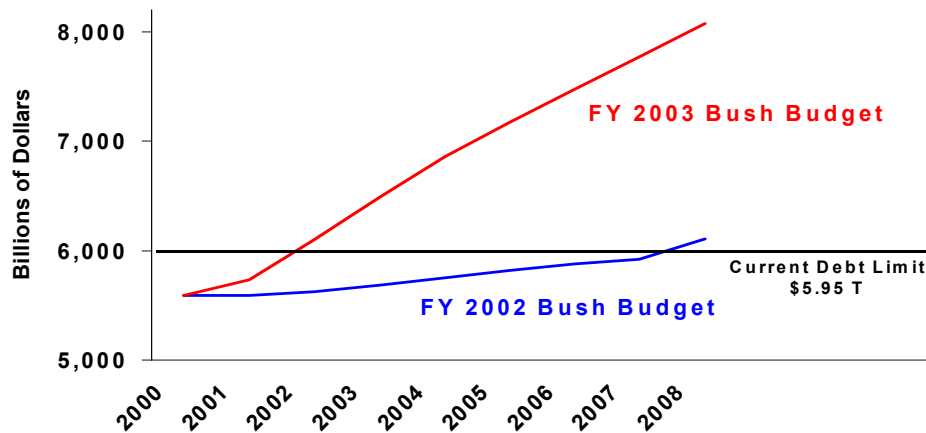
However, the Administration's own numbers show that the deterioration of the budget will be large and enduring. Furthermore, Table S-16 on page 415 of the President's budget shows quite clearly that the single largest factor in the deterioration of the budget over the last year was the over-sized Republican tax, accounting for 43 percent. Once the economic slowdown is behind us, of course, that percentage will be higher.

Given Republicans' arguments that the abrupt fiscal reversal was not their fault, their diffidence about enacting an urgent increase in the debt ceiling at the moment is curious. Currently, Treasury Secretary O'Neill is planning to borrow from the retirement trust fund for federal employees to avoid the need to vote an increase in the debt limit during the same week as the Congress considers the Republican budget that created the need for an increase.

Changes in the Total Budget Surplus, FY 2002-2011



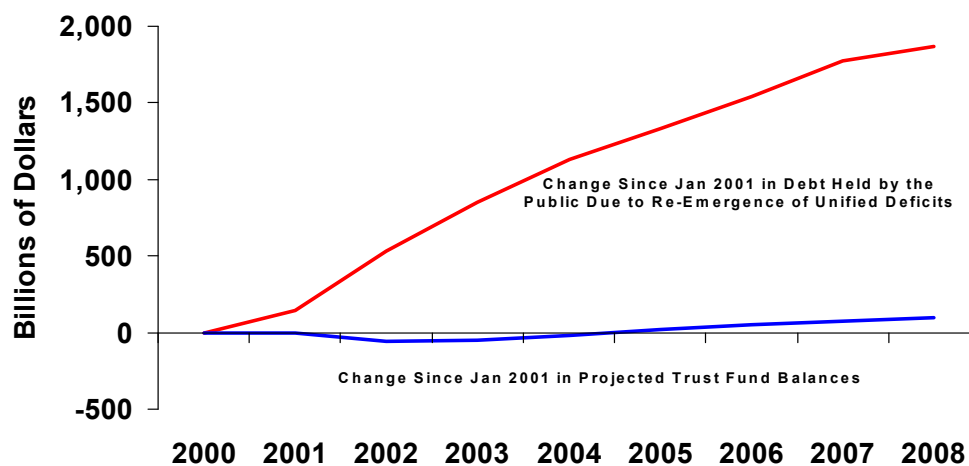
Debt Subject to Statutory Limit



Source: OMB

Republicans argue that Treasury obligations to government trust funds, which are part of debt subject to statutory limit, are somehow responsible for the urgent need to raise the debt ceiling now. But, as the chart below shows, the change in debt subject to limit since last year results almost entirely in the change in publicly held debt — a direct reflection of the budget's return to deficit — while debt held by the trust funds has barely changed.

Why Do We Have to Raise the Debt Limit Now Instead of 2008?



Source: OMB

This inaccurate argument has even prompted Congressional Republicans to suggest “solving” the problem by redefining debt subject to limit so as to exclude the part held in government trust funds. While this redefinition might make it appear as if debt subject to limit had declined rather than risen, it would be a sham, because Republicans had merely moved the goal posts. It also would amount to turning our backs on our obligations to Social Security and the other trust funds, which is not acceptable to Democrats.

Conclusion

House Republicans have proclaimed that their resolution embodies a “wartime balanced budget.” This conveys the impression that — were it not for the awful and unforeseen events of September 11 — the budget would be just fine. This is false. It is like claiming that the budget is just fine — provided one adjusts for all the changes in taxes and spending. However, the above analysis of the unrecognized and unacknowledged costs of the true Republican agenda shows it to be a plan exploiting the Social Security and Medicare surpluses for a misguided agenda — undermining those two bedrock programs for the elderly just as both are about to face their toughest challenges.